

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 07854 01 OF 02 272025Z

60

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 /104 W

----- 012003

R 272012Z MAR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 6255

INFO USMISSION GENEVA

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY MADRID

USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 07854

E.O. 11652: N/A

TAGS: ETRD, OECD, UK

SUBJECT: TCWP CONSULTATIONS ON UK INFLATION INSURANCE
SCHEME

REF: STATE 064746

1. SUMMARY: AT CONSTRUCTIVE TCWP CONSULTATIONS
MARCH 25 UK PROVIDED CONSIDERABLE INFORMATION ABOUT
THEIR INFLATION INSURANCE SCHEME, BUT STRESSED THEIR
VIEW THAT SCHEME WAS MINIMUM RESPONSE TO COMPETITIVE
PRESSURES ARISING FROM INFLATION AND SIMILAR MEASURES
TAKEN BY OTHER COUNTRIES. MOST OTHER MEMBERS OF THE
WORKING PARTY EXPRESSED CONCERN ABOUT POSSIBLE SUBSIDY
ELEMENT IN UK SCHEME, AND QUESTIONED CONSISTENCY WITH
TRADE PLEDGE. TCWP AGREED TO RECOMMEND TO TRADE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 07854 01 OF 02 272025Z

COMMITTEE THAT BROADER EXAMINATION OF ALL SUCH INFLATION

INSURANCE SCHEMES SHOULD BE UNDERTAKEN. END SUMMARY

2. UK OPENING STATEMENT NOTED STRONG PRESSURES BROUGHT BY UK EXPORTERS FOR IMPLEMENTATION OF UK SCHEME AS RESULT OF HIGH INFLATION RATES AND EXISTENCE OF SIMILAR INSURANCE SCHEMES IN OTHER COUNTRIES. UK DEL (BREMNER OF ECGD) INDICATED DECISION TAKEN ON UK SCHEME ONLY AFTER FAILURE TO PERSUADE OTHERS TO DROP THEIR OWN. HE SAID BASIC INTENTION WAS TO RESTORE CONFIDENCE AMONG UK EXPORTERS BY REMOVING THE COMPETITIVE DISADVANTAGE THEY CURRENTLY FACE, AND THAT UK DID NOT CONSIDER THIS CONTRARY TO TRADE PLEDGE. HE STRESSED THE LIMITED NATURE OF UK SCHEME COMPARED TO OTHERS AND SAID UK INDUSTRY WAS NOT EVEN PARTICULARLY ENTHUSIASTIC ABOUT THE SCHEME, WHICH THEY THOUGHT MIGHT NOT BE OF MUCH BENEFIT TO THEM. SEVERAL DELS, ESPECIALLY SWISS, US AND JAPANESE EXPRESSED SERIOUS CONCERN ABOUT THE UK MEASURE, INDICATING FEAR THAT IT WOULD DISADVANTAGE THEIR EXPORTS AND THAT IT COULD LEAD TO CHAIN REACTION OF EXPORT SUBSIDY MEASURES WHICH ARTIFICIALLY STIMULATED EXPORTS. US SAID UK ACTION APPEARED TO BE CONTRARY TO TRADE PLEDGE.

3. COVERAGE OF UK MEASURE. UK DEL STATED INSURANCE SCHEME WOULD APPLY ONLY TO CONTRACTS OF TWO MILLION POUNDS OR LARGER OF A DURATION OF TWO OR MORE YEARS, AND THAT NO PRODUCTION LINE GOODS WOULD BE INCLUDED. HE ESTIMATED THIS WOULD AMOUNT TO APPROXIMATELY FIVE PER CENT OF UK EXPORTS. IN RESPONSE TO QUESTIONS, HE INDICATED NO DEFINITION OF PRODUCTION LINE GOODS HAD BEEN ESTABLISHED AND THAT THE VALUE OF THE COVERAGE WOULD EXCLUDE PROFIT, FIXED COSTS, AND NON-UK COSTS.

4. DURATION. UK STATED PROGRAM WAS ESTABLISHED INITIALLY FOR TWO YEARS, AFTER WHICH TIME IT WOULD BE REVIEWED AND A DECISION TAKEN ON ITS CONTINUANCE ON THE BASIS OF INFLATION AND COMPETITIVE CONDITIONS ON WORLD MARKETS. UK DEL STRONGLY IMPLIED THAT EXISTENCE OF OTHER COUNTRIES SCHEMES WOULD BE MAJOR FACTOR IN DECISIONS ABOUT CONTINUING OPERATION OF UK SCHEME. LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 07854 01 OF 02 272025Z

5. SCOPE OF INSURANCE. UK DEL SAID BASIC INTENTION OF SCHEME WAS TO COVER 85 PERCENT OF COST INCREASES WHICH AVERAGED MORE THAN 10 PERCENT BUT LESS THAN 20 PERCENT PER YEAR THROUGHOUT THE LIFE OF THE CONTRACT. THE SLIGHTLY DIFFERENT PARAMETERS PROVIDED FOR CASH CONTRACTS (I.E. 90 PERCENT COVERAGE AND 25 PERCENT UPPER INFLATION LIMIT) WERE DESIGNED TO PROVIDE AN INCENTIVE

FOR CASH TRANSACTIONS. HE INDICATED UK WOULD USE
STANDARD INDICES OF LABOR AND MATERIALS COSTS FOR EACH
INDUSTRY, APPROPRIATELY WEIGHTED FOR EACH CASE, IN ORDER
TO DETERMINE APPLICABLE ANNUAL INFLATION RATES AND
ELIGIBILITY TO RECEIVE PAYMENTS UNDER SCHEME. UK DID
NOT INTEND, HOWEVER, TO PAY OUT MORE THAN THE ACTUAL
INCREASES IN THE COSTS OF A PARTICULAR CONTRACT EVEN IF
THE INDUSTRY INDICES WOULD INDICATE A HIGHER RATE OF
INFLATION. ALSO, NO PAYMENTS WOULD BE MADE UNTIL THE
CONTRACT WAS TERMINATED. UK DEL PLACED CONSIDERABLE
EMPHASIS ON THIS LAST FACTOR IN ORDER TO DEMONSTRATE
LIMITED SHORT-TERM EFFECT OF PROGRAM. SEVERAL DELS

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 07854 02 OF 02 272023Z

60

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-02

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 /104 W

----- 012021

R 272012Z MAR 75

FM USMISSION OECD PARIS

TO SECSTATE WASH DC 6256

INFO USMISSION GENEVA

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY MADRID

USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 07854

NOTED, HOWEVER, THAT UK FIRMS WOULD HAVE IMMEDIATE ADVANTAGE IN THEIR ABILITY TO QUOTE ON CONTRACTS WITHOUT DEMANDING FULL COST ESCALATION CLAUSES.

6. PREMIUMS AND COSTS. UK EXPLAINED THAT PREMIUMS FOR COVERAGE UNDER SCHEME WILL BE ONE PERCENT PER YEAR PAYABLE ANNUALLY IN ADVANCE. IN RESPONSE TO QUESTIONS ABOUT ESTIMATED NET COSTS, UK DEL SAID "WORST POSSIBLE SITUATION" ESTIMATE OF NET OUT-PAYMENTS DURING FIRST YEAR WHEN THESE COULD TAKE PLACE (I.E. IN FISCAL 1977-78) WAS 50 MILLION POUNDS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 07854 02 OF 02 272023Z

7. OTHER SCHEMES: MANY DELS EXPRESSED INTEREST IN OTHER SCHEMES WHICH UK DEL FREQUENTLY REFERRED TO AS BEING MORE GENEROUS THAN THEIR OWN. UK, HOWEVER, DECLINED TO ELABORATE AND NO OTHER DELS VOLUNTEERED INFORMATION ON THEIR OWN SCHEMES. (UK DEL AND SECRETARIAT INDICATED PRIVATELY THAT ITALY, FRANCE AND FINLAND HAVE SIMILAR SCHEMES, OF WHICH LATTER TWO ARE OF CONSIDERABLE SIGNIFICANCE.) THERE WAS CONSENSUS AMONG GROUP THAT BROADER EXAMINATION OF ALL SUCH SCHEMES WOULD BE DESIRABLE, AND THAT THIS SHOULD BE RECOMMENDED TO THE TRADE COMMITTEE, FOR CONSIDERATION AT PROPOSED APRIL 30 MEETING IF POSSIBLE. UK AND CANADA EXPRESSED PREFERENCE TO HAVE SUCH EXAMINATION TAKE PLACE IN EXPORT CREDIT GROUP, BUT TCWP AGREED TO LEAVE DECISION ON FORUM UP TO TRADE COMMITTEE. WORKING PARTY ALMOST AGREED TO HAVE SECRETARIAT CIRCULATE REQUEST FOR INFORMATION ON THESE SCHEMES TO MEMBERS PRIOR TO TC MEETING, BUT FRENCH AND ITALIAN DELS WOKE UP TO WHAT WAS HAPPENING AND REFUSED TO GO ALONG.
TURNER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMODITIES, TRADE AGREEMENTS, IMPORT CONTROLS, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OECDP07854
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: UPGRADED TO CONFIDENTIAL PER 8/22/78 MEMO FROM EB/ITP - WILLIAM BARRACLOUGH
Executive Order: GS
Errors: N/A
Film Number: D750108-0406
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975039/aaaaaigk.tel
Line Count: 209
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 STATE 64746
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 16 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <16 APR 2003 by ShawDG>; APPROVED <24 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: TCWP CONSULTATIONS ON UK INFLATION INSURANCE SCHEME
TAGS: ETRD, UK, OECD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006